

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE )	
COMMISSION OF THE ENVIRONMENTAL )	
SURCHARGE MECHANISM OF EAST )	
KENTUCKY POWER COOPERATIVE, INC. )	CASE NO.
FOR THE TWO-YEAR BILLING PERIOD )	2013-00324
ENDING JUNE 30, 2013 AND THE PASS )	
THROUGH MECHANISM FOR ITS SIXTEEN )	
MEMBER DISTRIBUTION COOPERATIVES )	

ORDER

On March 17, 2005, the Commission approved East Kentucky Power Cooperative, Inc.'s ("EKPC") environmental surcharge application and established a surcharge mechanism.<sup>1</sup> The Commission also approved a mechanism to pass through the environmental surcharge to EKPC's 16 member distribution cooperatives.<sup>2</sup> Pursuant to KRS 278.183(3), at six-month intervals, the Commission must review the past operations of the environmental surcharge. After hearing, the Commission may, by temporary adjustment in the surcharge, disallow any surcharge amounts found not to be just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to KRS 278.183(1). At two-year intervals, the Commission must review and evaluate the past operations of the environmental surcharge. After hearing, the

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<sup>1</sup> Case No. 2004-00321, Application of East Kentucky Power Cooperative, Inc. for Approval of an Environmental Compliance Plan and Authority to Implement an Environmental Surcharge (Ky. PSC Mar. 17, 2005).

<sup>2</sup> Case No. 2004-00372, Application of Big Sandy RECC, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Cumberland Valley Electric, Farmers RECC, Fleming-Mason Energy, Grayson RECC, Inter-County Energy Cooperative, Jackson Energy Cooperative, Licking Valley RECC, Nolin RECC, Owen Electric Cooperative, Salt River Electric, Shelby Energy Cooperative, South Kentucky RECC and Taylor County RECC for Authority to Pass Through the Environmental Surcharge of East Kentucky Power Cooperative, Inc. (Ky. PSC Mar.17, 2005).

Commission must disallow improper expenses and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

Therefore, the Commission hereby initiates the two-year review of the surcharge as billed from July 1, 2011 to June 30, 2013 to the member distribution cooperatives. The Commission also initiates the corresponding reviews of the pass-through mechanism as billed from August 1, 2011 to July 31, 2013 to retail member customers.<sup>3</sup>

To facilitate this review, a procedural schedule is set forth in Appendix A, attached hereto and incorporated herein. In accordance with that schedule, EKPC is to file prepared direct testimony: (a) in support of the reasonableness of the application of its environmental surcharge mechanism during the period under review; (b) on a proposal to roll its environmental surcharge into existing base rates; and (c) in support of the reasonableness of the application of the pass-through mechanism during the period under review. In addition, EKPC and the Member Cooperatives are to file their responses to the information requested in Appendix B, attached hereto and incorporated herein.

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<sup>3</sup> The Settlement Agreement approved in Case Nos. 2004-00321 and 2004-00372 allows the member distribution cooperatives to pass through the environmental surcharge to their customers at approximately the same time as EKPC bills the environmental surcharge to the member distribution cooperatives, thus avoiding a billing lag for the member distribution cooperatives. Therefore, the costs incurred from June 2011 through May 2013 are billed to the member distribution cooperatives in the months of July 2011 through June 2013, with these same costs passed through to the member customers on the bills for August 2011 through July 2013.

IT IS THEREFORE ORDERED that:

1. EKPC and each of its Member Cooperatives, listed in footnote 2, shall be parties to this case.

2. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.

3. Any person who submits a motion to intervene after October 28, 2013, and upon a showing of good cause is granted full intervention, shall accept and abide by the existing procedural schedule.

4. East Kentucky shall, by the date set forth in Appendix A, file its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism and the application of the pass-through mechanism during the periods under review.

5. Any party filing testimony shall file an original and seven copies.

6. a. EKPC and each of its 16 Member Cooperatives shall file responses to the questions asked of the particular cooperative in Appendix B. The information requested herein is due by the date set forth in Appendix A. Responses to requests for information shall be appropriately bound, tabbed and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record and seven copies to the Commission. Any request for information by letter from the Commission Staff shall be responded to as if set forth in a Commission Order

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a

governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Any party shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any requests to which a party fails or refuses to furnish all or part of the requested information that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

7. Within seven days of the Commission's granting of intervention to a party, EKPC shall provide the party with a copy of its monthly environmental surcharge reports as filed with the Commission for the review period.

8. EKPC's monthly environmental surcharge reports and supporting data for the review period shall be incorporated by reference into the record of this case.

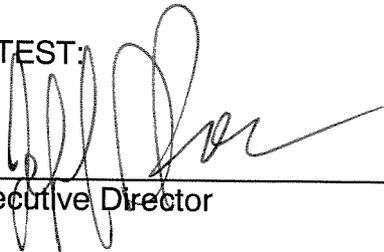
9. The Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

10. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

By the Commission

ENTERED  
SEP 18 2013  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:



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Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2013-00324 DATED **SEP 18 2013**

EKPC shall file its prepared direct testimony and responses to the information requested in Appendix B no later than..... 10/18/13

Each of the 16 Member Cooperatives shall file its response to the information requested in Appendix B no later than..... 10/18/13

A person interested in becoming a party to this proceeding shall file a motion to intervene with the Commission pursuant to 807 KAR 5:001, Section 4(11) no later than..... 11/04/13

All additional requests for information to EKPC shall be filed no later than ..... 11/13/13

EKPC shall file responses to additional requests for information no later than ..... 11/27/13

Intervenor testimony, if any, in verified prepared form shall be filed no later than ..... 12/12/13

All requests for information to Intervenors shall be filed no later than ..... 12/26/13

Intervenors shall file responses to requests for information no later than ..... 01/09/14

Last day for EKPC and its 16 Member Cooperatives or Intervenors to request a hearing or submit this case for decision based on the record..... 01/20/14

## APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2013-00324 DATED **SEP 18 2013**

### COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO EAST KENTUCKY POWER COOPERATIVE, INC.

1. This question is addressed to EKPC. Prepare a summary schedule showing the calculation of E(m) and the surcharge factor for the expense months covered by the applicable billing period. Form 1.1 can be used as a model for this summary. Include the expense months for the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included for the billing period. Include a calculation of any additional over- or under-recovery amount EKPC believes needs to be recognized for the two-year review. Include all supporting calculations and documentation for the additional over- or under-recovery.

2. This question is addressed to EKPC. For each of the 16 member distribution cooperatives, prepare a summary schedule showing the distribution cooperative's pass-through revenue requirement for the months corresponding with the two-year review. Include the two months subsequent to the billing period included in the applicable review period. Include a calculation of any additional over- or under-recovery amount the distribution cooperative believes needs to be recognized for the two-year review. Include all supporting calculations and documentation for the additional over- or under-recovery.

3. This question is addressed to EKPC. Refer to Form 2.3, Inventory and Expense of Emission Allowances, for each of the expense months covered by the applicable billing period.

a. For the sulfur dioxide ("SO<sub>2</sub>") emission allowance inventory, explain the reason(s) for all purchases of allowances reported during these expense months.

b. For the nitrogen oxide ("NO<sub>x</sub>") emission allowance inventory, explain the reason(s) for all purchases of allowances reported during these expense months.

c. Explain how the purchases of allowances in the expense months covered by the applicable billing periods comply with EKPC's emissions allowance strategy plan.

4. This question is addressed to EKPC. Refer to Form 2.5, Operating and Maintenance Expenses, for the December 2012 to May 2013 expense months. For each of the expense-account numbers listed on this schedule, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

5. This question is addressed to EKPC. The Settlement Agreement approved in Case No. 2004-00321 provides that East Kentucky's rate of return on compliance-related capital expenditures will be updated to reflect current average debt cost at the conclusion of the surcharge review period. Provide the following information as of May 31, 2013:

a. The debt issuances directly related to projects in the approved compliance plan and corresponding outstanding balances of each debt issuance.

b. The debt cost for each debt issuance directly related to the projects in the approved compliance plan.

c. East Kentucky's calculation of the weighted average debt cost and the rate of return resulting from multiplying the weighted average debt cost by a 1.50 Times Interest Earned Ratio ("TIER"). Include all supporting calculations showing how the weighted average debt cost was determined.

6. This question is addressed to EKPC. Provide the percentage of East Kentucky's debt issuances directly related to projects in the approved compliance plan that have a variable interest rate as of the May 2013 expense month.

7. This question is addressed to EKPC. KRS 278.183(3) provides that during the two-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

a. Provide the surcharge amount that EKPC believes should be incorporated into its existing base rates. Include all supporting calculations, workpapers, and assumptions.

b. The surcharge factor reflects a percentage of revenue approach, rather than a per kWh approach. Taking this into consideration, explain how the surcharge amount should be incorporated into EKPC's base rates. Include any analysis that EKPC believes supports its position.

c. Provide the Base Period Jurisdictional Environmental Surcharge Factor ("BESF") that reflects all environmental surcharge amounts previously incorporated into existing base rates and the amount determined in part (a). Include all supporting calculations, workpapers, and assumptions.

d. Does EKPC believe that there will need to be modifications to either the surcharge mechanism or the monthly surcharge reports, other than a revision to BESF, as a result of incorporating additional environmental surcharge amounts into EKPC's existing base rates? If yes, provide a detailed explanation of the modifications and provide updated monthly surcharge reports.

8. This question is addressed to each of the 16 member distribution cooperatives. For your particular distribution cooperative, provide the actual average residential customer's monthly usage. Based on this usage amount, provide the dollar impact any over- or under-recovery will have on the average residential customer's monthly bill for the requested recovery period. Provide all supporting calculations.

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